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SUBJECT: FORD OTOSAN,S SUCCESSFUL U.S. - TURKISH TRADE VENTURE

REF: ANKARA 145

¶11. (SBU) Summary: The Ambassador,s recent visit to a Ford Otosan plant near Istanbul showcased the Ford-Koc joint-venture,s production of the Transit Connect, a U.S. market export that was recently named &2010 Truck of the Year8. Otosan is Turkey,s largest industrial exporter and one of its biggest contributors of tax revenue. Otosan,s plants feature many of Turkey,s competitive advantages) production efficiency, reliable labor force, good transportation links) but possible expansion plans hinge in part on whether the GOT can meet Ford,s expectations on incentives. Otosan,s operations are a shining success story in a bilateral economic relationship that remains modest relative to the size of our economies. End Summary.

FORD-KOC JOINT VENTURE PLANTS IN KOCAELI, GEBZE

¶12. (SBU) On January 26, Ambassador, Istanbul Consul General, and Commercial Officer visited the Ford Otosan factory in the northeastern city of Kocaeli, about 100 miles from Istanbul. Ford Otosan is a joint-venture between the Turkish Koc Group and Ford. The Kocaeli plant is a state of the art, highly robotized facility that opened in 2001. Since then, it has produced full-sized Transit vans and the compact Transit Connect for 25 markets. Annual production passed 300,000 units before the global financial crisis reduced production to 180,000 units. With 80 percent of those vehicles leaving Turkey, it is the nation,s largest industrial exporter and one of its biggest sources of tax revenue. Ford Otosan also has a plant in the city of Gebze near Istanbul. The relationship between Ford and Koc, Turkey,s largest holding company, started in 1928 with a dealership arrangement which has now developed into a joint venture with 41 percent Ford equity, 41 percent Koc equity, and 18 percent publically held common stock. Ford Otosan employs over 7,600 workers and has registered over \$4.8 billion USD in sales. Profits are shared between Ford and the Koc Group. During the visit, U.S. Mission officials were given a tour of the production facility that assembles the Transit and Transit Connect vehicles. The Transit Connect is the first Turkish-made vehicle to be ever exported to the U.S. Turkish Prime Minister Erdogan drove the first vehicle into the ship bound for U.S. markets in a ceremony last May.

U.S. &TRUCK OF THE YEAR8 MADE IN TURKEY

¶13. (SBU) Ford started exporting the Transit Connect to the U.S. in May 2009 and sent 30,000 of the vehicles there by the end of 2009, generating \$300 million in sales. In 2009 the

plant also produced 72,000 Transits and an additional 27,000 Transit Connects for European and domestic markets. The Transit Connect received the &2010 Truck of the Year8 award in January at the Detroit Motor Show. The vehicle fills a previously unfilled niche in the U.S. market for a fuel efficient compact van created by a shift in commercial buyer,s behavior favoring smaller, more fuel-efficient vehicles.

WHY PRODUCE IN TURKEY?

¶4. (SBU) According to plant manager Michael Flewitt, Ford chose to produce the U.S. market,s Transit Connect in Turkey because of the Kocaeli plant,s award-winning efficiency, productive workers, and location close to sea transportation links. The cost of shipping the vehicles to Baltimore adds only \$300 to its price. Since the vehicle is actually considered a passenger vehicle under U.S. customs tariff rates, it only faces a 2.5 percent customs duty versus a 25 percent duty for imported trucks.

POSSIBLE BUMPS IN THE ROAD

¶5. (SBU) Despite the success of the Ford Otosan Transit Connect operations, possible pot holes lie ahead. In order to meet Ford,s global increase in demand, Flewitt advised, Ford is considering doubling its Kocaeli plant by building another factory on a green field plot next to the existing plant. However, Ford is also evaluating sites in other countries whose governments may provide additional incentives or cost sharing in the preparation of the site. Ford officials have expressed frustration that the GOT has not been forthcoming

with an incentive package attractive enough to encourage Ford to proceed with the construction of another plant in Turkey. Ford may also move production of Transit Connect vehicles intended for the U.S. market to the U.S. if production is expected to surpass 150,000 units. Such volume makes it more profitable to produce the vehicle in the target market.

¶6. (SBU) Comment: Ford,s production of durable, high value goods in Turkey for U.S. and European markets stands as a showcase success in the bilateral economic relationship. It demonstrates that Turkey can offer a sturdy export platform for U.S. investment; however, no template exists for success in such activities and profitable U.S. investments in Turkey are often marked by unique circumstances. In Ford,s case, success was built on a long relationship with the Koc group, a powerful industrial partner, and encouraged by Turkey,s proximity to European markets. Other U.S. companies have developed profitable production and trade operations in Turkey as well, but psychological and practical impediments continue to keep the bilateral economic relationship smaller than expected for the world,s largest and 16th largest economies) a central challenge for upcoming engagements under the Framework for Strategic Economic and Commercial Cooperation (FSECC).

¶7. (SBU) Another USG task in FSECC engagements will be to highlight the pivotal contributions U.S. investment like Ford,s makes to the Turkish economy) contributions that are often underappreciated by a GOT that obsesses about Turkey,s &unfavorable8 balance of trade with the U.S.(reftel). In Ford,s case, for example, the employment, domestic consumption, tax revenue, and exports to European markets generated by its investment are not credited to &the U.S. account8 but yield substantial dividends to the Turkish economy. End Comment.

WIENER